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SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER November 18 2005
ISSUE

¶1. Summary. Each week, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- September Manufacturing Production Picks Up;
- World Bank Launches 2006 Development Report;
- Slow Internet and High Cost Obstacle to South African Online Shopping;
- Deputy President Views Lack of Skills as a Danger to SA's Continued Gains;
- NAFCOC Sets Targets for Small Business Sector;
- Credit Demand Expected to Remain High in 2006; and
- Fraud Still Perceived as Problem to SA Firms;

End Summary.

SEPTEMBER MANUFACTURING PRODUCTION PICKS UP

¶2. South Africa's manufacturing output rose by 5.9% in September up from August's 4% growth, primarily due to production increases in the petroleum industry, according to Statistics South Africa (StatsSA). Compared with August, manufacturing production rose by a seasonally adjusted 2.2%. In the three months to the end of September, it rose by 1.8% compared to the previous quarter. The petroleum, chemical and rubber and plastics sector contributed most to growth, followed by the food, motor vehicle and wood and printing sectors. The basic metals and machinery and textile sectors were the only two sectors with negative growth during September. Manufacturing is the second-biggest sector of the South Africa's economy, accounting for more than 16% of gross domestic product. Source: Reuters, StatsSA Release P3041.2, November 17.

WORLD BANK LAUNCHES 2006 DEVELOPMENT REPORT

¶3. At the launch of the World Bank's 2006 World Development Report (WDR), the authors stressed the importance of equity in achieving high economic growth and prosperity. World Bank economist Francisco Ferreira emphasized the importance of early education, local government's capacity to provide access to water, transportation and health services and broad access to finance as key determinants to increased equity and growth. The 2006 WDR focused on equity and development,

where equity was defined as equality of opportunities, that are not predetermined by race, gender, or wealth. At the report's launch, several economists discussed local constraints facing the South African government in providing rapid growth and improved equity. Local government's capacity, skill development, and lack of investment were repeatedly cited as South Africa's challenges. Iraj Abedian, from Pan African Capital Holdings, viewed inefficiencies of the state in providing infrastructure as more prominent at local governmental levels and advocated immediate action to remedy the situation. He also pointed out the lack of African investment in Africa, stating that 50% of African investments are made outside the continent. In addition, matching the skills and training to the needs of the business was crucial for sustaining employment gains. Elias Masilela, a former Treasury Deputy Director General and now a Sanlam (a financial services company) executive, thought that the government should ensure that nobody experiences extreme poverty and that this required government intervention, as one could not rely on markets to provide everything. Sound institutions, especially at the local government level, had to be created to empower the poor with knowledge and offer more choices by ensuring competition. When asked what South Africa could do in the short term to alleviate poverty and promote equity, Ferreira suggested that conditional grants, whether linked to education or health, were preferable to unconditional grants. Source: I-Net Bridge, November 15 and 16.

SLOW INTERNET AND HIGH COST OBSTACLE TO SOUTH AFRICAN ONLINE SHOPPING
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¶4. Recent research shows that online shopping is a

growing retail trend internationally, with accelerated growth in emerging markets. The South African market, however, is lagging behind as a result of slow internet speeds and the high cost of connections. An annual research report on the South African online retail market by Arthur Goldstuck suggested that there are approximately 300,000 active online shoppers, accounting for less than 10% of South African internet users. Online retail accounts for about 0.14% of general retail in South Africa, compared with 1.6% in other parts of the world. According to Goldstuck, access to higher and cheaper bandwidth is essential for the growth of the South African online retail market and unless the telecommunications authorities deregulate the market more effectively, online retail sales will stagnate. Airline tickets are the most popular item bought online in South Africa, with groceries and books being the next most popular online products. Source: Business Day, November 16.

DEPUTY PRESIDENT VIEWS LACK OF SKILLS AS A DANGER TO SA'S CONTINUED GAINS
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¶5. Deputy President Phumzile Mlambo-Ngcuka warned that unless South Africa tackled its skills shortages at all levels of the economy, it could undo "all the gains of the past 11 years." She said the government had identified certain categories of skills that were critical to implement programs needed to shift growth higher. Financial skills were needed, especially in municipalities that had received unfavorable audit reports. These municipalities also needed more engineering skills and economic planners. All these efforts should build up a core group of people that could be deployed to the rural areas that needed them the most. Where local talent is lacking, people would be recruited from abroad, although the government's first preference is South Africans who have retired or who are living overseas and now want to come back. Skilled people from other African countries

would also be recruited. Source: Business Day, November ¶15.

NAFCOC SETS TARGETS FOR SMALL BUSINESS SECTOR

¶6. The National African Federated Chamber of Commerce and Industry (NAFCOC) wants to establish and sustain 100,000 new small, medium and micro- enterprises (SMME) every year. NAFCOC President Patrice Motsepe said there were currently 1.2 million SMME businesses, employing more than 60% of the private sector. The recent nationwide SMME Survey 2005 identified insufficient expertise as a greater stumbling block to the growth of small businesses than the often-cited lack of access to finance. During its annual general meeting in Durban next week, NAFCOC will focus its discussions on the development of small businesses. NAFCOC was formed in 1964 as the National African Chamber of Commerce to tackle the hostile environment facing black business at the time. Source: Business Day, November 15.

CREDIT DEMAND EXPECTED TO REMAIN HIGH IN 2006

¶7. According to business consulting firm KreditInform, 73% of the 160 businesses surveyed in its latest KreditBarometer expect an increase in new credit applications in the next 12 months, despite the prospect of future higher interest rates. Only 2% expect a decline in credit applications, while 21% expect them to remain constant. Two-thirds of respondents also said the size of credit limits would increase, while 30% felt they would remain unchanged. According to Gavin Long, Manager of Specialist Products at KreditInform, most businesses expect a small and steady increase in interest rates but not enough to affect economic output and demand for credit. Another indication of strong credit demand continuing is the strength of loans financed. The Micro Finance Regulatory Council reported record loans by microfinanciers of R6.3 billion ($940 million, using 6.7 rands per dollar) from June until August 2005, an increase of 9% compared to the same period in 2004. Most of the growth was due to the size of the loans, rather than an increase in number. Recent statements by leading governmental financial policymakers caution that interest

rates may rise in the near future. Finance Minister Trevor Manuel pointed to higher interest rates, saying domestic rates were unlikely to remain low as interest rates rise globally. He also cautioned against rising debt levels in a higher interest rate environment. Colen Garrow, economist at financial services company Brait, said while an increase of 50-100 basis points in the prime lending rate might dampen credit growth, it would be unlikely to halt it. Source: Business Day, November 17.

FRAUD STILL PERCEIVED AS PROBLEM BY SA FIRMS

¶8. According to a KPMG survey, 64% of South African firms surveyed believed that fraud was a major problem. The Consumer Profile Bureau also pointed out that 65% of businesses in Africa were complaining about higher levels of fraud. Businesses viewed background checks and credit screening as essential tools in preventative measures to prevent fraud. In South Africa, the ease of obtaining duplicate identification documents from the Department of Home Affairs was cited as the most critical problem, while strong concerns were expressed about the proposed National Credit Bill's regulations that would prevent credit bureaus from issuing a negative credit report for amounts under R100 and a one-time deletion of information older than three years on repayment history. Credit industry analysts assert that these regulations would mean credit might have to be extended to someone who did not have a

debt repayment history. Source: Business Report, November 17.

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